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## Chapter 8

### LOANFUND BALANCES

One of the best methods of understanding the nature of capital is to understand the method of keeping capital accounts.

In the present complicated world of divided ownership of capital, with its interrelated arrangement of stocks, bonds, debts, and credits, the capitals of individuals dovetail into one another . . . every liability item in a balance sheet implies the existence of an equal asset in some other balance sheet. . . . It follows that every negative term in one balance sheet may be canceled against a corresponding positive term in some other . . . when we combine capital accounts, provided we combine enough of them to supply, for every liability item, its counterpart asset, and for every asset *which has one*, its counterpart liability.

Credit is simply a debt looked at from the standpoint of the creditor. Irving Fisher, *Elementary Principles of Economics* (Macmillan, 1912), pp. 39-40, 52, 55, and 57.

IN HIS pioneering work on *Capital and Income* Fisher drew a sharp line between funds and flows. He tells us that in using the word wealth, "We may have reference either to a quantity existing at a particular instant of time, or to a quantity produced, consumed, exchanged, or transported during a period of time. The first quantity is a *stock* (or *fund*) of wealth; the second quantity is a *flow* (or *stream*)."<sup>1</sup> The moneyflows with which we have been concerned thus far are flows in Fisher's sense, and the loanfunds in Part Two of the statement of payments and balances that are the subject of this chapter are funds.

In Chapters V and VI of his *Capital and Income* and in Chapter III of his *Elementary Principles*, Fisher was concerned with the problem of constructing a national balance sheet. A national balance sheet, like a national income or product account, belongs to the accrual perspective. And just as national income accounting focuses on final purchases and primary distributive shares and slights the intermediate transactions, so national wealth accounting focuses on final ownership and on what is finally owned and slights the claims — liabilities and their counterpart assets — that cancel out in preparing a consolidated statement for all transactors. (Fisher says 'combine'; technically he means 'consolidate'.)

Loanfunds are claims or forms of credit — canceling items that the

<sup>1</sup> Irving Fisher, *The Nature of Capital and Income* (Macmillan, 1906), p. 51.

national wealth accountant tends to slight. The national loanfund accounts complement the national type of transaction accounts much as a statement of national wealth complements a statement of national income.

The national loanfund accounts do not include all claims. They omit insurance policy reserves and various other accrual items as not belonging to the moneyflows perspective. Loanfunds consist of book credit claims and negotiable claims. In dealing with them we shall, in general, adopt Fisher's view that each loanfund has a double aspect: it is an asset to the holder and an obligation for someone else. Theoretically, therefore, we should expect — apart from statistical discrepancies and deviations from accounting uniformity — to have a separate balancing national account for each type of loanfund.

But the problem of deviations from accounting uniformity is particularly acute in the loanfunds area, and in this chapter we shall have to go into a number of the technicalities of the deviations problem even if we gloss over the less important ones. We shall find, for one thing, that it is difficult to make a clean separation of the national loanfund accounts from one another. To some extent the liability aspect of certain claims appears in one account and the asset aspect in another. Basically this means that some transactions have been classified under one heading on the books of one set of transactors and under another heading on the books of the opposing parties to these transactions, i.e., that there is a deviation from a uniform system of classifying accounts. This type of accounting nonuniformity can do more than obscure the dividing lines between loanfund accounts. We shall find that there are some loanfund asset balances for which no corresponding liabilities appear in the national loanfund accounts.

We regard cash balances (currency and deposits) as a form of credit. They conform to Fisher's idea of credit. They are assets to the holders and liabilities of the banking sector. Economists have often imagined an economy in which there is no other form of credit, a mere money economy. Because there are a good many deviations from accounting uniformity to consider, we believe it will be helpful to start by thinking of the United States as if it were such an economy, and introduce the complications of other forms of credit one by one. But we intend this procedure as a mere logical and expository expedient without any chronological implication. It is not suggested that the mere money economy and the other imaginary cases that follow it have any historical significance whatever.

### 1 *From a Mere Money Economy to a Money and Gold Economy*

Table 2 was set up to give an impression of our economy as a mere money economy in the sense of one in which cash balances — currency and deposit accounts — are the only form of credit. To obtain line K, other sources of money, and line J, other dispositions of money, transactions in liquid assets other than cash and in debts and other loanfund balances were combined with the transactions discussed in Chapter 6 and some of those in Chapter 5. Let us suppose that these sources and dispositions of money arising from financing and credit transactions are zero so that only ordinary transactions are reported on lines J and K, all ordinary transactions being strictly cash transactions; we shall then have in effect what we refer to as a mere money economy. We really have in mind an economy in which all loanfund balances other than cash — all debts and all credit except the currency and deposit liabilities of the banking sector — are ruled out entirely. But if all other balances are found for each transactor to remain constant during a given period in an actual economy, the economy may be said to behave like a mere money economy during the period.<sup>2</sup>

Lest it be thought that these assumptions are impossibly restrictive, we may note their implications for the banking sector. Let us think of this sector as being not a loan and security holding transactor but a lessor of real property. Then nonbank transactors might expand their cash balances by selling rental properties to banks and contract them by repurchasing the rental properties.

Let us call an imaginary economy of this type Case 1. It is clear that for the individual transactor in Case 1 the change in cash on hand is the balancing item in his moneyflows account. Under the assumed conditions each ordinary receipt transaction involves a credit to one of the thirteen ordinary receipt accounts and a debit to cash; each ordinary expenditure transaction a debit to one of the thirteen ordinary expenditure accounts and a credit to cash. Therefore, when a transactor's ordinary receipts exceed his ordinary expenditures, the cash balance will necessarily increase by the amount of the excess. And when the converse is the case the account will necessarily be balanced by the decrease in cash on hand. Under these conditions the moneyflows account (apart from statistical discrepancy) is clearly a balancing account. Also, under these conditions no transactor has any discretion over his financial

<sup>2</sup> To be strictly accurate we should add it is assumed that there are no book valuation changes to be adjusted for and that the mail float (discussed in Section 2 below) is zero.

sources and dispositions of money that is separate from his discretion over ordinary receipts and expenditures. Any net excess of receipts from ordinary transactions is automatically disposed of by accumulating cash; and drawing down the cash balance is a source of money that automatically accompanies any net excess of ordinary expenditures.

For Case 1 the only loanfund information we would need in connection with the main money circuit would be that in Table 28, lines A through N. And at first thought, we might, under the assumed conditions, expect the national cash balances account to balance. But even such an expectation would probably be an unwarranted form of statistical optimism. Some currency might get lost. Also, nonbank transactors might decide to call some items cash that are not liabilities of the banking sector. We know this is so today. For example, line E shows the Federal government's general fund balance plus the separate bank deposits of government corporations. Several items in this cash balance (some are negative) are not included in computing line M from banking data. The largest and most variable is the silver bullion that is reported as part of the Treasury's general fund balance but that is not treated currently in banking statistics as a part of currency and deposit liabilities.<sup>3</sup> We might have adjusted either line E or line M to eliminate this deviation from accounting uniformity (the latter adjustment would have aggravated another deviation, Table 29, line P, in the process). But here and at a number of other points we have elected to sacrifice accounting uniformity in order to tie the several lines in the national loanfund accounts to established statistical series. Even in a mere money economy such as we have imagined we probably could not expect the national cash balances account to balance. However, the discrepancy would presumably be somewhat smaller than Table 28, line N; and if the silver bullion in the general fund were the chief factor, it would be of opposite sign.

Now let us modify Case 1 into Case 2: assume that the banking sector is required by tradition or by law to own an inventory of gold equal to or greater than some particular percentage of its currency and deposit liabilities but that there are no standard gold coins in circulation and no international gold movements. Let us further suppose an accounting convention that treats the gold inventory of the banking sector as a loanfund receivable — a kind of fiat issue of currency — and a different con-

<sup>3</sup> The liability item referred to is called Treasury cash. If this silver were added to Treasury cash and line M it would presumably have to be added also to Table 29, line N.

TABLE 28

THE NATIONAL CURRENCY  
(Millions of

	1935	1936	1937	1938
<b>ASSETS, DECEMBER 31</b>				
A Households . . . . .	29,000	31,800	32,200	32,400
B Farms . . . . .	1,600	1,900	1,900	1,900
C Industrial Corporations . . . . .	8,500	8,900	8,100	9,000
D Business Proprietors and Partnerships et al . . . . .	4,700	5,200	5,400	5,400
E The Federal Government . . . . .	2,240	1,980	3,020	3,160
F State and Local Governments . . . . .	3,300	3,500	3,400	3,700
G Life Insurance Companies . . . . .	800	800	700	800
H Other Insurance Carriers . . . . .	400	500	500	600
J Security and Realty Firms et al . . . . .	1,800	1,900	1,800	1,900
K The Rest of the World . . . . .	<u>1,000</u>	<u>1,300</u>	<u>1,300</u>	<u>1,900</u>
L All Transactors . . . . .	53,400	57,700	58,400	60,700
<b>LIABILITIES, DECEMBER 31</b>				
M Banks and U. S. Monetary Funds . . . . .	53,800	58,600	59,100	61,300
N Discrepancy (Balance Receivable) . . . . .	-400	- 800	- 700	- 600

THE NATIONAL  
(Millions of

	1935	1936	1937	1938
<b>ASSETS, DECEMBER 31</b>				
P Industrial Corporations . . . . .	14,700	16,100	15,600	15,000
Q Business Proprietors and Partnerships et al . . . . .	6,300	6,900	7,000	6,400
R The Federal Government . . . . .	<u>0</u>	<u>20</u>	<u>20</u>	<u>20</u>
S All Transactors . . . . .	20,900	23,100	22,700	21,400
<b>LIABILITIES, DECEMBER 31</b>				
T Households . . . . .	2,600	3,100	3,400	3,400
U Farms . . . . .	1,400	1,600	1,800	1,600
V Industrial Corporations . . . . .	11,400	12,600	11,400	11,200
W Business Proprietors and Partnerships et al . . . . .	5,000	5,500	5,900	4,800
X The Federal Government . . . . .	80	80	80	100
Y Security and Realty Firms et al . . . . .	<u>200</u>	<u>200</u>	<u>300</u>	<u>300</u>
Z All Transactors . . . . .	20,800	23,100	22,800	21,400
a Discrepancy (Balance Receivable) . . . . .	200	1/	- 200	1/

THE NATIONAL  
(Millions of

	1935	1936	1937	1938
<b>ASSETS, DECEMBER 31</b>				
b Banks and U. S. Monetary Funds . . . . .	10,100	11,300	12,800	14,500
<b>LIABILITIES, DECEMBER 31</b>				
c The Rest of the World . . . . .	0	1,100	2,400	4,100
d Discrepancy (Balance Receivable) . . . . .	10,100	10,100	10,300	10,400

COMPUTATION OF DISCREPANCY BETWEEN  
(Millions of

	1935	1936	1937	1938
e Discrepancy (Net Loanfund Balance Receivable) . . . . .	9,900	9,300	9,500	9,800
f Increment in Net Loanfund Balance Receivable . . . . .		- 600	200	300
<b>VALUATION ADJUSTMENTS a/c BAD DEBTS</b>				
g Households (Debts Forgiven) . . . . .		500	500	500
h Industrial Corporations # . . . . .		-500	-400	-300
i Business Proprietors and Partnerships et al. # . . . . .		<u>-200</u>	<u>-200</u>	<u>-200</u>
j All Transactors . . . . .		-200	-100	1/
k Discrepancy (Money Advanced or Returned Less Money Obtained) . . . . .		-500	400	300

Note: Due to rounding, figures for various lines calculated by formulas given in the source column may differ slightly from the entries shown.  
#Receivables recoveries and debts forgiven minus receivables write-offs.

# LOANFUND BALANCES

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## AND DEPOSITS ACCOUNT

Dollars)

1939	1940	1941	1942	Source	
34,900	36,600	40,200	47,200	P&B-I-d . . . . .	A
2,100	2,300	2,800	4,100	P&B-II-U . . . . .	B
10,000	11,900	12,800	16,100	P&B-III-a . . . . .	C
5,600	6,500	7,200	9,400	P&B-IV-a . . . . .	D
2,580	2,020	3,660	10,680	P&B-V-b . . . . .	E
3,600	4,000	4,400	4,600	P&B-VI-b . . . . .	F
900	1,000	900	700	P&B-VIII-Y . . . . .	G
700	900	900	800	P&B-IX-W . . . . .	H
2,000	2,400	2,500	2,900	P&B-X-b . . . . .	J
<u>3,100</u>	<u>3,900</u>	<u>3,500</u>	<u>3,800</u>	P&B-XI-X . . . . .	K
65,600	71,600	79,000	100,300	Total A thru K . . . . .	L
66,500	73,300	80,900	102,400	P&B-VII-b . . . . .	M
- 900	-1,700	-1,900	-2,100	L minus M . . . . .	N

## BOOK CREDIT ACCOUNT

Dollars)

1939	1940	1941	1942		
16,200	17,800 2/	21,200 2/	22,600 2/	P&B-III-b . . . . .	P
6,700	7,300	8,600	8,200	P&B-IV-b . . . . .	Q
<u>40</u>	<u>400</u>	<u>400</u>	<u>1,360</u>	P&B-V-c . . . . .	R
22,900	25,500	30,200	32,200	P + Q + R . . . . .	S
3,600	3,900	4,200	3,200	P&B-I-h . . . . .	T
1,500	1,700	1,700	1,500	P&B-II-W . . . . .	U
12,200	12,800	14,400	14,800	P&B-III-f . . . . .	V
5,200	5,300	6,300	5,900	P&B-IV-f . . . . .	W
100	-80	780	4,100	P&B-V-f . . . . .	X
<u>300</u>	<u>300</u>	<u>300</u>	<u>300</u>	P&B-X-f . . . . .	Y
22,900	23,900	27,700	29,800	Total T thru Y . . . . .	Z
100	1,600	2,500	2,400	S minus Z . . . . .	a

## GOLD ACCOUNT

Dollars)

1939	1940	1941	1942		
17,600	22,000	22,700	22,700	P&B-VII-W . . . . .	b
7,100	11,200	11,800	11,600	P&B-XI-b . . . . .	c
10,600	10,800	11,000	11,100	b minus c . . . . .	d

## MONEY OBTAINED AND MONEY ADVANCED

Dollars)

1939	1940	1941	1942		
9,700	10,700	11,500	11,400	N + a + d . . . . .	e
- 100	1,000	800	- 100	Increment in e . . . . .	f
500	500	500	500	P&B-I-n . . . . .	g
-400	-300	-400	-300	IC 306 B . . . . .	h
<u>-200</u>	<u>-200</u>	<u>-200</u>	<u>-200</u>	P&B-IV-k . . . . .	i
-100	1/	-100	1/	g + h + i . . . . .	j
1/	1,000	900	-100	f minus j . . . . .	k

1/Lies between + \$50 million.

2/A substantial part of the item on line Q in Table 31, Government Advances and Prepayments, is properly a deduction from these receivables.

vention for other transactors. The monetary gold stock is thus a claim on other transactors held by the banking sector — a special type of cash balance — but no other transactor records this claim as a liability. In our actual economy such conflicting conventions have become firmly established.<sup>4</sup> Case 2 thus introduces a second type of deviation from a uniform system of account classification and a second type of discrepancy. This one is in the national gold account, and on our assumptions it would be a large one; its absolute level, corresponding to Table 28, line d, would exactly equal the monetary gold stock. The gold stock would be a loanfund asset balance to which there are no corresponding liabilities. But for purposes of computing financial moneyflows, as we noted in Chapter 7 in considering the statement of payments and balances for the rest of the world, it is not the absolute level discrepancy that creates a problem, but rather the incremental discrepancy. The annual increment in the monetary gold stock is a financial disposition of money to which in Case 2 there would be no corresponding financial source of money.

To make clear the nature of this deviation from accounting uniformity let us state the journal entry for a transaction making an addition to the monetary gold stock (inventory): On the books of the banking sector, debit the monetary gold stock and credit cash (i.e., credit currency and deposit liabilities); on the books of some industrial corporation, debit cash and credit receipts from customers. An increment in the monetary gold stock from domestic sources involves two equal and offsetting discrepancies in the moneyflows accounts — a discrepancy in the customer moneyflows account and a discrepancy in the national account of financial moneyflows.<sup>5</sup> We will take up the latter account toward the

<sup>4</sup> Even before gold coin was withdrawn from circulation the statement of "Member Bank Reserves, Reserve Bank Credit, and Related Items" treated the whole gold stock as a loanfund receivable of the banking sector. Circulating gold coin was counted both as part of this asset and as part of currency liabilities.

<sup>5</sup> Alternatively in Case 2 some might prefer to treat gold as a commodity in the banking sector statement, not as a loanfund. This treatment would mean that the monetary gold stock would not appear in the accounts as such, but that changes in this stock — and gold imports and exports in Case 3 — would appear in some ordinary transactions account. If these gold transactions were lumped with other items in the large customer moneyflows account, the deviation from accounting uniformity would be avoided but the part played by gold in the money circuit would be entirely concealed. Even a separate ordinary transactions account seems to us an unsatisfactory way to show that part. We think it far better to follow the established usage of both our banking and our balance of payments statistics. Changes in the gold stock should be related to and grouped with changes in bank credit and currency and deposits, rather than with purchases of bank supplies and equipment. International movements of gold should



end of this chapter. It summarizes the money advanced or returned to others and the money obtained through financing.

We have used an addition to the gold stock to illustrate the nature of this deviation from a uniform account classification. Under our assumed conditions we might, of course, have used a withdrawal of gold from a monetary into a nonmonetary use.

Next let us transform Case 2 into Case 3 by taking international gold movements into account. When we do this a large part, but not all, of this deviation from accounting uniformity disappears, because we count cumulative net gold imports, Table 28, line c, as a liability of the rest of the world. Gold imports are a financial source of money to the rest of the world. What remains of the incremental discrepancy (i.e., the increment in line d) represents chiefly additions to the gold stock from domestic production.

## 2 *A Mere Money, Gold, and Book Credit Economy*

Next let us introduce book credit transactions to make Case 4. With this revision of our assumptions all of Table 28 becomes pertinent, and the three loanfund accounts of Table 28 are the only pertinent loanfund accounts.

Such a mere money, gold, and book credit economy is very much like a mere money economy for each transactor group other than the banking sector and the rest of the world, except that cash plus trade receivables minus trade payables replaces cash. The change in this net loanfund balance becomes the balancing item in the moneyflows account. Each ordinary receipt means a debit to this net balance, each ordinary expenditure a credit. Settlements and collections of book accounts affect the composition but not the amount of this net loanfund balance. The domestic nonbank transactor's discretion over his financial moneyflows is still narrowly limited.

However, on our revised assumptions we can no longer compute the net financial moneyflow from the opening and closing net loanfund balances alone, because when book credit is introduced bad debts affect the computation.

In Chapter 7 we saw that for any transactor group the computation of the net money obtained through financing (or advanced or returned to others) involved two steps: first, the determination of the increment in the net loanfund balance on a book value basis; and second, the

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be related to and grouped with those of capital funds, rather than with those of merchandise.

adjustment of this increment to eliminate the effects of book revaluations, thereby isolating the financial moneyflow. In a mere money, gold, and book credit economy (Case 4) this means we must eliminate trade debt writeoffs.

The three valuation adjustments, lines g, h, and i, are intended to reflect the effects of such writeoffs, so that we can separate out from the increment in a transactor's net receivables plus cash the part of the increment that is not a disposition of his money but a mere accounting revaluation of his receivables and payables. In the present state of our information such a separation cannot be made at all precisely. Line h, for industrial corporations, represents bad debt charges minus a crude, small allowance for recoveries of receivables previously written off and for trade debts forgiven (chiefly writedowns of trade payables through corporate reorganizations).<sup>6</sup> It is especially difficult to determine statistically what debts a transactor group has been forgiven; in the nature of the case these debts are not reported on closing balance sheets. But debt forgiveness must be a substantial item in the case of business proprietors and partnerships et al; and for households it is presumably the sole component of this valuation adjustment. Lines g and i are guesses at the levels of the two adjustments, based on the assumption that what one transactor forgives some other must be forgiven.

The introduction of book credit transactions gives us three further deviations from accounting uniformity to consider. One is the main source of the discrepancy in the national cash balances account. When all sales are strictly cash, payment and receipt are substantially simultaneous. But when a bill rendered is settled by mailing a check, the customer deducts the payment from his bank balance when he makes out the check; commonly, the payee does not receive the check and add the settlement to his bank balance until a day or so later. Thus there are always a number of checks in the mail, the total amount of which is not included in holder records of bank deposits but is included in bank records of these deposits. Because of this amount, known as the mail float,<sup>7</sup> line N tends to be negative.

<sup>6</sup> Bad debt charges plus any capital losses minus any capital gains on receivables are presumably the correct adjustment as far as receivables are concerned when the practice of valuing them net of bad debt reserves is followed (cf. the Technical Note at the end of chapter 7). From this receivables adjustment we must deduct any payables included in the total at the opening of the year that were not settled during the year and are not in the year end total.

<sup>7</sup> The mail float is not to be confused with the bank float — items in process of collection from the banks on which they are drawn by the banks to which they are pre-

The mail float arises because of a deviation from uniform timing in making accounting entries. The paying transactor credits his cash and debits his trade payables before the recipient debits his cash and credits his trade receivables. But the effect on the national loanfund accounts is much the same as a deviation from uniform account classification. If the difference in timing were fully reflected in both the national cash balances account and the national book credit account, and if this difference were the sole explanation of the two discrepancies, the currency and deposit liabilities of the banking sector would exceed what other transactors show as their cash balances by exactly the amount that trade receivables exceed trade payables, i.e., the two discrepancies, Table 28, lines N and a, would always be opposite in sign and equal to the mail float.

The second deviation from accounting uniformity that arises in connection with book credit transactions is neither a matter of timing of entries on the books nor one of divergent account classifications. Rather it results from valuing claims differently in their asset aspect and in their liability aspect. There is a marked difference in practice with respect to methods of valuation for trade receivables and for trade payables. Trade receivables are commonly reported net of a reserve for bad debts. Trade payables are commonly reported gross. This valuation difference tends to make the receivables balance materially smaller than the payables balance.

As far as the relations between trade receivables and trade payables are concerned, the two deviations from accounting uniformity, the reserve for bad debts and the mail float, have effects that at least partly offset each other. But the precise effects of these two distorting influences on Table 28 are difficult to evaluate because they are complicated by methods of estimate, particularly those employed in the case of household trade payables. Receivables of household creditors are the basis for the estimates in line T; hence only a part of the deviation effect of the mail float and only a part of the deviation effect of bad debt reserves are reflected in line a.

In a mere money, gold, and book credit economy with trade payables the only form of debt for domestic nonbank transactors there would be no occasion to worry about how to get a clean-cut separation of the

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mented. Since the banking sector is treated as a single transactor and line M is from the consolidated statement of payments and balances for this sector, the bank float does not affect line M, except as it may be a source of error in estimating.

accounts shown in Table 28 from other loanfund accounts. In our actual economy it is not always clear how to draw the line between trade payables and other forms of debt. We have intended so to define trade receivables and trade payables that debits to trade receivables and credits to trade payables shall arise only in connection with two types of ordinary transactions, customer moneyflows and instalments to contractors. This means that while the item, customers' debit balances, might for some purposes be regarded as a trade receivable for security dealers, we shall not so regard it. Debits to it arise in connection with loanfund transactions, not ordinary transactions. It will be treated as a part of other loans and securities held by security and realty firms et al, and as a part of other household debt, Table 31, lines J and M respectively. It is an item that would have no place in a mere money, gold, and book credit economy.

In our actual economy there is a third deviation from accounting uniformity in connection with book credit transactions that affects 1940, 1941, and 1942. During the war period a somewhat novel type of book credit account became important. Especially in the early years of war production the Federal government made payments to public contractors in advance of deliveries. These prepayments involved a kind of negative accounts payable for the Federal government and a kind of negative accounts receivable for public contractors. In computing accounts payable for the Federal government (Table 28, line X), an allowance for these negative accounts payable has been made. But the information for industrial corporations on negative accounts receivable is combined with loans by the Federal government under the caption, government advances and prepayments (Table 31, line Q). As part of this item properly belongs in the book credit account in Table 28, the separation between Tables 28 and 31 is incomplete.

If there were no statistical discrepancies in Table 28 and if this table referred to a mere money, gold, and book credit economy we should expect line k to measure the net effect of the various deviations from accounting uniformity we have encountered, or rather of two of them:

- 1) The difference between holder and banking sector definitions of cash balances.

- 2) The net addition to the monetary gold stock from domestic sources. Presumably there would be no failure to include negative accounts receivable in line P in a mere money, gold, and book credit economy. And theoretically the mail float and bad debt reserves should not affect line k. The two effects of the mail float should cancel when we combine the cash balances account and the book credit account. And the valuation adjustment

should offset the effects of bad debt reserves. Actually both may affect line k, because both probably contribute to the statistical discrepancy.

### 3 *The Government Debt and Treasury Currency Accounts*

So much for a mere money, gold, and book credit economy.

Let us next consider the two additional loanfund accounts needed when we waive the assumption that there is no government debt, and when we introduce into the economy a monetary silver stock and into the monetary liabilities of the banking sector the various types of currency we have today. And let us label this Case 5. The two additional accounts this case calls for are the national Federal obligations account and the Treasury currency account (Table 29).

Treasury currency has had a place as a separate item in banking statistics for more than a decade, but its nature is not widely understood. The item appears regularly in the consolidated balance sheet of Treasury monetary funds and the twelve Federal Reserve banks entitled, Member Bank Reserves, Reserve Bank Credit and Related Items.<sup>8</sup> We may analyze it into three components:

- 1) The main monetary silver stock
- 2) Part of the noninterest-bearing direct Federal debt which is an asset of the banking sector
- 3) The remainder

As an asset of banks and U. S. monetary funds silver is much like gold. The billion dollar increase in line N from 1935 to 1942 reflects principally the growth in our main monetary silver stock (standard silver dollars and the silver bullion in the Treasury's silver account).<sup>9</sup> This growth is a use of funds (disposition of money) by the banking sector for which there is no offsetting source in Table 29. Receipts from sales of silver by domestic producers, as in the case of gold, are counted as ordinary receipts from customers. Also, international silver movements (unlike international gold movements) are classified as ordinary transactions. Hence silver as well as gold is responsible for a minor deviation from a uniform classification of accounts.

A second part of Treasury currency consists of noninterest-bearing obligations of the Treasury — the liability a/c United States notes and the liability a/c deposits for retirement of national bank notes and Federal Reserve bank notes. These three obsolescent forms of paper currency are currently a component of the direct debt of the Federal government

<sup>8</sup> The first table in the statistical section of the *Federal Reserve Bulletin*.

<sup>9</sup> This is a stock of bullion separate from that in the general fund. Cf. the discussion of the general fund in Section 1 above.

TABLE 29

## THE FEDERAL

(Millions of

	1935	1936	1937	1938
ASSETS, DECEMBER 31				
A Households . . . . .	9,300	9,800	10,400	10,000
B Industrial Corporations . . . . .	1,800	1,700	1,700	1,600
C Business Proprietors and Partnerships et al . . . . .	600	700	800	800
D State and Local Governments . . . . .	200	300	300	300
E Banks and U. S. Monetary Funds . . . . .	19,500	21,500	20,700	22,100
F Life Insurance Companies . . . . .	2,600	3,700	4,400	4,800
G Other Insurance Carriers . . . . .	600	800	900	1,000
H Security and Realty Firms et al . . . . .	1,100	1,200	1,300	1,400
J The Rest of the World . . . . .	0	0	0	0
K All Transactors . . . . .	35,700	39,600	40,400	41,900
LIABILITIES, DECEMBER 31				
L Federal Government Debt Held by the Public . . . . .	35,500	39,400	40,500	41,900
M Discrepancy (Balance Receivable) . . . . .	300	200	- 100	- 100

## THE TREASURY

(Millions of

	1935	1936	1937	1938
ASSETS, DECEMBER 31				
N Banks and U. S. Monetary Funds . . . . .	2,500	2,500	2,600	2,800
P All Transactors . . . . .	2,500	2,500	2,600	2,800

## COMPUTATION OF DISCREPANCY BETWEEN MONEY

(Millions of

	1935	1936	1937	1938
Q Net Loanfund Balance Receivable Above Accts. . . . .	2,700	2,700	2,600	2,700
INCREMENT IN BALANCE RECEIVABLE				
R Above Accounts . . . . .		1/	- 200	200
S Table 31 . . . . .		900	- 600	-1,200
T Total . . . . .		900	- 700	-1,000

VALUATION ADJUSTMENT a/c LOANS AND SECURITIES  
(Chiefly Asset Write-Ups Minus Asset Write-Downs)

U Industrial Corporations . . . . .	- 100	- 100	- 900
V The Federal Government . . . . .	- 50	1/	50
W Banks and U. S. Monetary Funds . . . . .	100	- 100	- 200
X Life Insurance Companies . . . . .	1/	- 100	- 100
Y Other Insurance Carriers . . . . .	20	- 40	- 80
Z Security and Realty Firms et al . . . . .	100	- 100	- 200
a All Transactors . . . . .	100	- 500	-1,400
b Discrepancy (Money Advanced or Returned minus Money Obtained) . . . . .	800	- 200	400

Note: Due to rounding, figures for various lines calculated by formulas given in the source column may differ slightly from the entries shown.

## OBLIGATIONS ACCOUNT

Dollars)

<u>1939</u>	<u>1940</u>	<u>1941</u>	<u>1942</u>	<u>Source</u>	
10,200	10,700	13,600	22,300	P&B-I-e . . . . .	A
1,600	1,300	2,700	8,400	P&B-III-c . . . . .	B
800	800	1,200	2,100	P&B-IV-c . . . . .	C
300	400	500	800	P&B-VI-c . . . . .	D
23,500	25,000	29,700	54,100	P&B-VII-X . . . . .	E
5,300	5,800	6,800	9,400	P&B-VIII-Z . . . . .	F
1,100	1,100	1,400	1,900	P&B-IX-X . . . . .	G
1,400	1,400	1,800	3,300	P&B-X-c . . . . .	H
0	0	200	600	P&B-XI-Y . . . . .	J
44,100	46,400	57,900	102,900	A thru J . . . . .	K
44,100	46,400	57,800	103,400	P&B-V-g . . . . .	L
100	100	100	- 500	K minus L . . . . .	M

## CURRENCY ACCOUNT

Dollars)

<u>1939</u>	<u>1940</u>	<u>1941</u>	<u>1942</u>		
3,000	3,100	3,200	3,600	P&B-VII-Z . . . . .	N
3,000	3,100	3,200	3,600	N above . . . . .	P

## ADVANCED AND MONEY OBTAINED FOR TABLES 29 AND 31

Dollars)

<u>1939</u>	<u>1940</u>	<u>1941</u>	<u>1942</u>		
3,000	3,100	3,300	3,200	M + P . . . . .	Q
300	100	200	- 100	Increment in Q . . . . .	R
- 300	- 200	300	- 200	Table 31, Line'a . . . . .	S
100	- 100	500	- 300	R + S . . . . .	T
- 200	- 100	1/	0	IC 306 F . . . . .	U
- 700	300	- 150	- 200	P&B-V-k . . . . .	V
- 100	- 100	1/	- 100	P&B-VII-g . . . . .	W
- 100	- 100	- 100	1/	P&B-VIII-d . . . . .	X
- 40	- 80	- 100	- 20	P&B-IX-b . . . . .	Y
- 100	- 200	- 100	- 100	P&B-X-m . . . . .	Z
-1,200	- 300	- 400	- 400	U thru Z . . . . .	a
1,300	100	900	100	T minus a . . . . .	b

1/Lies between + \$50 million.

and hence of line L, a component of line N, and a component of money in circulation and hence of line M in Table 28. But they are not included in line E of Table 29. To the extent of these issues the Federal obligations account and the Treasury currency account overlap. Because these obligations were declining slowly during the first six years of our period, the increment in line N is slightly less than that in the monetary silver stock during these years. In 1942 both these noninterest-bearing obligations and the monetary silver stock increased.

A full explanation of the remainder of Treasury currency would be somewhat technical, and we shall not attempt it. A major subitem of this remainder is equal to the value of the subsidiary silver coins and minor coins that are included in the currency liabilities of banks and U. S. monetary funds. It is reasonable to regard the silver in dimes, quarters and half dollars as a subsidiary monetary silver stock and an asset of the banking sector. Additions to this asset, like additions to the main silver stock, involve a deviation from a uniform classification of accounts — the sale of the silver to the mint is recorded under receipts from customers in the sellers' moneyflows accounts. Now the monetary value of the subsidiary and minor coins exceeds the value of this subsidiary silver stock, and the excess can fairly be characterized as a deficit in token money collateral.<sup>10</sup> The inclusion of this deficit in the debit item, Treasury currency, may be said to bring the Member Bank Reserves and Related Items statement nominally into balance. And since a deficit is not an asset, there can be no liability of nonbank transactors corresponding to it in Table 29. Fortunately it is a small and fairly constant item, so that we can largely disregard it as an accounting source of discrepancies in the moneyflows accounts.

The top section of Table 29 shows the Federal obligations account. As already explained, only obligations in the hands of the public (including the banking sector) are reported. The small difference between the liability item on line L and the total shown as assets of other transactors (line K) can be attributed to two factors. One is the non-interest-bearing debt that appears as an asset on line N rather than line E. The other is that while holdings of other transactors are in general on a book value-for-obligor basis, holder valuations have been used in the

<sup>10</sup> For simplicity we speak of the deficit in token money collateral. This should not be taken to imply a net deficit in the Treasury currency fund. It would take us afield to consider this currency fund fully, but we would contend that, with the subsidiary silver stock valued at \$1.29 an oz., for this fund considered as a whole there has been a surplus in recent years, not a deficit.



case of the banking sector; and these are not quite the same as the values according to government records.

The introduction of government obligations, even without borrowing by other transactors, would go a long way toward making an economy a full-fledged credit economy. Transactors with ordinary receipts larger than ordinary expenditures would no longer automatically accumulate cash balances; they could elect to invest in government bonds instead. And owners of government bonds could finance an expansion of ordinary expenditures either by liquidating their holdings or by drawing down their cash balances. The banking sector in Case 5 would also be much more like it is in our actual economy. Presumably it would hold government bonds, not rental properties, as its earning assets.

#### 4 *Banking Assets and Cash Balances*

It remains to introduce borrowing by other transactors and the issue (or retirement) of stock by corporations. As a first step in this direction let us examine the financial sources and dispositions of funds (i.e., of money) by the banking sector, taking 1942 as an illustrative year. In Chapter 3 we indicated that the banking sector would be treated as a single transactor, i.e., that we would present a consolidated statement for it, in order to bring out clearly its relations to the rest of the economy. Table 30 is a consolidated statement of opening and closing loanfund balances for this sector for 1942.<sup>11</sup> We have already considered four of the items, the monetary gold stock and currency and deposit liabilities (Table 28, lines b and M), and government obligations and Treasury currency (Table 29, lines E and N). There are two new items, other loans and securities held, and paid-in capital.

Column 3 gives an ordinary sources and uses of funds analysis for the banking sector. As in the case of other transactors, we regard increases in loanfunds receivable balances (or decreases in payables) as dispositions of money and increases in loanfunds payable balances (or decreases in receivables) as sources of money. The book value changes in most of these items presumably require little or no adjustment to eliminate writeups and writedowns.

The change in gold stock was negligible in 1942. \$24.5 billion was disposed of through increased holdings of government obligations, another \$400 million through an increase in Treasury currency, and \$100 million by retirement of paid-in capital, making a total disposition of

<sup>11</sup> This is an adaptation of a table form appearing currently in the *Federal Reserve Bulletin* under the caption, Consolidated Condition Statement for Banks and the Monetary System.

Table 30

Financial Sources and Uses of Funds of the Banking Sector, 1942  
(Billions of Dollars)

		December 31		Increase during
		1941	1942	1942
		(1)	(2)	(2) minus (1)
ASSETS		(1)	(2)	(3)
A	Monetary Gold Stock . . . . .	22.7	22.7	.0
B	Federal Obligations . . . . .	29.7	54.1	24.5
C	Other Loans & Securities . . . . .	34.8	31.4	-3.4
D	Treasury Currency . . . . .	3.2	3.6	.4
E	Total Loanfunds Receivable (A + B + C + D)	90.5	111.9	21.4
LIABILITIES				
F	Currency & Deposits Due to Nonbanks . . . . .	80.9	102.4	21.5
G	Paid-in Capital . . . . .	6.3	6.2	-.1
H	Total Loanfunds Payable (F + G) . . . . .	87.2	108.6	21.4
J	Net Apparent Banking Use of Funds . . . . .	3.3	3.3	.1
	(E - H)			
K	Net Valuation Adjustment (Loss) . . . . .			.1
L	Net Money Advanced or Returned to Others . . . . .			.2
	(J + K)			

Because of rounding, columns may not precisely downtowntotal.

money of \$25 billion. Expansion of currency and deposits provided a source of funds (money) of \$21.5 billion. There was an apparent source of funds of \$3.4 billion due to a decrease in the holdings of other loans and securities (line C), but from this amount we must subtract a valuation adjustment of \$100 million a/c net losses on loans and securities, for this applies primarily to line C. With the net effect of writeoffs and writeups thus eliminated it is clear that total financial sources of funds amounted to \$24.8 billion. Therefore, net money advanced or returned to others by the banking sector was about \$200 million. When we come to the full statement of payments and balances for the banking sector we shall expect to find that the source of this money was an excess of the sector's ordinary receipts over its ordinary expenditures (apart from the statistical discrepancy).

### 5 Our Full-fledged Credit Economy

We have in effect already introduced into the economy the types of negotiable credit not covered by Tables 28 and 29 (Table 30, lines C and G). Table 31 summarizes these loanfund balances for the various transactor groups.

The assets listed as other loans and securities (Table 31, lines A through K) and the obligations listed on lines M through X refer to approximately the same set of claims. It would have added greatly to the usefulness of these figures if we had been able to separate the assets of each sector (lines A through K) into stock owned and debt claims

held, so that we could relate the former to lines M through T and the latter to lines V, W, and X. But this did not seem feasible.

The other debts account includes bonds, notes, debentures, and mortgages, also (household) customers' debit balances on security dealers' books. Lines V through X show the capital stock of the banking sector and private business corporations.

There are important differences in the bases of valuation used for various items in Table 31. For purposes of measuring moneyflows it clearly seems advisable to use a paid-in basis of valuation for corporate stock outstanding, as far as feasible. In estimating lines V and X the following steps were taken: First, the annual increment in paid-in capital was taken to be equal to the increment in book value of the proprietorship equity minus additions to surplus; second, the increments so determined were cumulated; third, the level of the series was set on the basis of a crude guess for 1936.

Lines B through J report portfolios on a holder book value basis. As already noted, line K shows the cumulative net capital movement (net purchases of securities and accumulation of balances) arbitrarily set at zero as of December 31, 1935. The household portfolio was estimated from a cumulative savings series; the level was fixed by estimating crudely for 1939 the various components of household portfolios, using obligor valuations (consistent with lines M through Y).

For all transactors claims receivable (from each other) cannot exceed claims payable (to each other). Evidently line Z represents the discrepancy in the loanfund accounts. It is largely due to valuation differences. Since the amounts included for holdings of bonds, notes, debentures, and mortgages in line L presumably do not differ greatly from the totals shown as liabilities on line U, the valuation differences arise chiefly in connection with stock. Further, since the stock included in line A for households is on substantially the same valuation basis as the outstanding obligations on account of capital stock (lines V through X), and since the stock holdings included in lines C through H and in line K are small, the valuation discrepancy problem focuses on the relation between the valuation bases for stock used in lines V and X on the one hand and in lines B and J on the other.

The discrepancy in level (line Z) is large, but as we have emphasized, only the incremental discrepancy (line a) need concern us. And this must be corrected for book revaluations. In view of the valuation bases used in Table 29, we might perhaps have been justified in assuming that substantially all valuation adjustments a/c loans and securities (Table 29, lines U through a) apply to the items in Table 31, lines B through J.

TABLE 31

## THE OTHER LOANS

(Millions of

		1935	1936	1937	1938
ASSETS, DECEMBER 31					
A	Households . . . . .	111,100	111,000	110,700	110,400
B	Industrial Corporations . . . . .	22,600	21,900	21,300	21,500
C	Business Proprietors and Partnerships et al . . . . .	2,200	2,200	2,300	2,300
D	The Federal Government . . . . .	12,000	11,180	10,860	10,880
E	State and Local Governments . . . . .	4,100	4,300	4,400	4,600
F	Banks and U. S. Monetary Funds . . . . .	29,400	31,300	31,300	30,300
G	Life Insurance Companies . . . . .	16,800	17,200	18,000	19,000
H	Other Insurance Carriers . . . . .	5,000	5,200	5,400	5,400
J	Security and Realty Firms et al . . . . .	47,000	46,300	45,900	46,200
K	The Rest of the World . . . . .	0	1,100	2,200	2,500
L	All Transactors . . . . .	250,200	251,600	252,300	253,100

## THE OTHER DEBTS

(Millions of

		1935	1936	1937	1938
LIABILITIES, DECEMBER 31					
M	Households . . . . .	21,900	21,900	21,600	21,100
N	Farms . . . . .	8,700	8,400	8,400	8,700
	Industrial Corporations:				
P	Other Debt . . . . .	38,600	38,600	39,700	40,100
Q	Government Advances and Prepayments . . . . .	0	0	0	0
R	Business Proprietors and Partnerships et al . . . . .	6,600	6,900	7,100	7,000
S	State and Local Governments . . . . .	19,500	19,600	19,600	19,800
T	Security and Realty Firms et al . . . . .	31,200	31,000	31,300	32,100
U	All Transactors . . . . .	126,500	126,300	127,800	128,800

## THE CORPORATE PAID-IN

(Millions of

		1935	1936	1937	1938
LIABILITIES, DECEMBER 31					
V	Industrial Corporations . . . . .	66,400	66,600	66,400	67,500
W	Banks and U. S. Monetary Funds . . . . .	7,000	6,900	6,700	6,600
X	Security and Realty Firms et al . . . . .	36,600	37,400	37,500	37,400
Y	All Transactors . . . . .	110,000	110,800	110,600	111,500

## COMPUTED INCREMENT IN LOANFUND BALANCE

(Millions of

		1935	1936	1937	1938
Z	Net Loanfund Balance Receivable . . . . .	13,600	14,500	13,900	12,800
a	Increment in Balance Receivable . . . . .		900	- 600	- 1,200

## RECAP OF DISCREPANCIES

		1935	1936	1937	1938
b	Money Advanced or Returned minus Money Obtained, Table 28 . . . . .		- 500	400	300
c	Money Advanced or Returned minus Money Obtained, Tables 29 & 31 . . . . .		800	- 200	400
d	Total, Money Advanced or Returned minus Money Obtained, Tables 28, 29 & 31 . . . . .		300	100	800

Note: Due to rounding, figures for various lines calculated by formulas given in the source column may differ slightly from the entries shown.

## AND SECURITIES ACCOUNT

Dollars)

<u>1939</u>	<u>1940</u>	<u>1941</u>	<u>1942</u>	Source	
109,500	108,700	108,300	108,600	P&B-I-f . . . . .	A
21,600	21,800	22,100	20,300	P&B-III-d . . . . .	B
2,300	2,300	2,300	2,000	P&B-IV-d . . . . .	C
10,680	10,840	11,320	10,900	P&B-V-d . . . . .	D
4,700	4,700	4,800	4,700	P&B-VI-d . . . . .	E
30,900	32,500	34,800	31,400	P&B-VII-Y . . . . .	F
19,800	20,800	22,000	22,000	P&B-VIII-a . . . . .	G
5,400	5,700	5,800	5,900	P&B-IX-Y . . . . .	H
45,600	46,000	46,100	42,400	P&B-X-d . . . . .	J
<u>3,500</u>	<u>5,200</u>	<u>4,900</u>	<u>4,300</u>	P&B-XI-Z . . . . .	K
254,000	258,700	262,400	252,500	A thru K . . . . .	L

## PAYABLE ACCOUNT

Dollars)

<u>1939</u>	<u>1940</u>	<u>1941</u>	<u>1942</u>		
21,800	22,500	22,800	19,700	P&B-I-1 . . . . .	M
8,500	8,800	8,800	8,600	P&B-II-X . . . . .	N
40,000	41,000	42,300	40,400	P&B-III-g . . . . .	P
0	600 2/	800 2/	2,000 2/	P&B-III-1 . . . . .	Q
7,700	8,800	10,200	8,800	P&B-IV-g . . . . .	R
20,100	20,200	20,000	19,200	P&B-VI-f . . . . .	S
<u>31,800</u>	<u>33,000</u>	<u>33,800</u>	<u>31,000</u>	P&B-X-g . . . . .	T
130,000	134,900	138,700	129,700	M thru T . . . . .	U

## CAPITAL ACCOUNT

Dollars)

<u>1939</u>	<u>1940</u>	<u>1941</u>	<u>1942</u>		
67,300	67,400	67,000	66,200	P&B-III-h . . . . .	V
6,500	6,500	6,300	6,200	P&B-VII-c . . . . .	W
<u>37,700</u>	<u>37,600</u>	<u>37,900</u>	<u>38,100</u>	P&B-X-h . . . . .	X
111,500	111,500	111,200	110,400	V + W + X . . . . .	Y

## RECEIVABLE IN ABOVE ACCOUNTS

Dollars)

<u>1939</u>	<u>1940</u>	<u>1941</u>	<u>1942</u>		
12,500	12,300	12,500	12,300	L minus (U + Y) . . . . .	Z
- 300	- 200	300	- 200	Increment in Z . . . . .	a

## IN TABLES 28, 29 AND 31

<u>1939</u>	<u>1940</u>	<u>1941</u>	<u>1942</u>		
<u>1/</u>	<u>1,000</u>	<u>900</u>	<u>- 100</u>	Table 28, line k . . . . .	b
1,300	100	900	100	Table 29, line b . . . . .	c
1,300	1,100	1,800	<u>1/</u>	b + c . . . . .	d

1/Lies between + \$50 million.

2/A substantial part of this item belongs in the national book credit account rather than in this account. See footnote 2/ to Table 28.

However, it seems wise to call attention to the inadequacies of our information about valuation adjustments by applying a single adjustment to the combined discrepancies in Tables 29 and 31 (accomplished on line b of Table 29).

If differences in the basis of valuation were the only type of deviation from accounting uniformity represented in Tables 29 and 31, and if our adjustments were adequate (line a), line b would be a mere statistical discrepancy. However, as we saw, the increment in line R of Table 29 reflected additions to the monetary silver stock. And in discussing Table 28 we noted that line Q of Table 31 includes a kind of negative accounts receivable for which the corresponding negative accounts payable are represented in Table 28, line X.

Another deviation from accounting uniformity affects the discrepancy in the loan and security accounts, line b of Table 29. It arises in connection with purchases and sales of securities. If A sells a block of stock to B through brokers or dealers as intermediaries there will be a markup equal to the margin or commission received by the intermediaries. Suppose A happens to sell at his book value so there is no capital gain or loss, and that the markup is \$200. If B records the stock at cost, its portfolio value will be increased by \$200. This \$200 should be reflected in Table 31 as a use of funds, but the offsetting source of funds should be reflected in Table 8 as receipts from customers by security and realty firms et al.<sup>12</sup>

To some extent the discrepancies on line b of Table 29 are offsetting. Our various loanfund accounts are imperfectly separated. But when we combine these two discrepancies in line d on Table 31, we find that all transactors together appear to have advanced or returned more money to each other than they obtained from each other in every year of the seven.

To an important extent this indicates inadequacies in our basic information and errors of estimate. However, three deviations from accounting uniformity make for a discrepancy in the combined loanfunds

<sup>12</sup> Theoretically there is another minor deviation of analogous character in the ordinary transaction accounts. Real estate commissions appear as a receipt by security and realty firms et al. When a piece of real estate is sold and the cost to the purchaser exceeds the realization of the seller by the amount of the agent's commission, the commission should appear in Table 8 as a source of money for security and realty firms et al and the corresponding use of funds should appear in Table 11. Actually, because our estimates for Table 11 are poor, no discrepancy is there shown.

In the case of rent contracts, the receipt has been counted as a rent receipt (not a commission) by security and realty firms et al; so such commissions involve no deviation from a uniform classification of accounts.

accounts: the deviation associated with additions to our monetary gold stock from domestic production (the increment in line d of Table 28), the deviation associated with the growth of our monetary silver stock (approximately the increment in line P of Table 29), and the deviation in connection with security dealers' commissions and margins. All three operate in the same direction; together they account for an excess of money advanced or returned over money obtained of probably half a billion dollars a year.

All the major deviations from accounting uniformity we have considered, except these three, are internal to the loanfund accounts, i.e., they have to do with relations between one loanfund account and another, but do not affect net financial moneyflows. The three discrepancies that do affect the net financial moneyflows all affect also the national customer moneyflows account. They should produce an equal discrepancy, opposite in sign, in that account. But in that account half a billion dollars is a small percentage of total moneyflows, and the effect of the three deviations is obscured by the statistical discrepancy.

Deviations from accounting uniformity produce discrepancies in the type of transaction accounts. But, unlike mere statistical discrepancies, they do not affect statements of payments and balances. Deviations from accounting uniformity represent differences in the handling of a transaction, or of a claim, by two transactors. When we look at only one statement of payments and balances we cannot expect to see such a difference.

In Chapter 7 we discussed the computation of the net financial moneyflow for each of several transactor groups. In this chapter we have examined the corresponding computation for the banking system (Table 30) and for all transactors taken together (Table 31, line d). These financial moneyflows — the money advanced or returned by each sector and the money obtained by it through financing — are recapitulated in Table 32. As we should expect, the discrepancy in this national moneyflows account is in agreement with line d of Table 31.

In this chapter we have been largely concerned with the effects of deviations from a uniform scheme of social accounting on the national loanfund accounts. In part these deviations are due to inadequacies in present information, inadequacies that one may hope will in time be remedied. In part also they are due to the fact that the two parties to a transaction may look at it somewhat differently. All told the deviations make an analysis of the financial moneyflows summarized in Table 32 less clear-cut than one would desire it to be. Even the dividing line between financial flows and the flows arising from ordinary transactions

TABLE 32

## NET MONEY OBTAINED OR ADVANCED

(Millions of

	1926	1927	1928
NET MONEY OBTAINED BY:			
A Households . . . . .	0	0	400
B Farms . . . . .	0	300	100
C Industrial Corporations . . . . .	0	1,100	0
D Business Proprietors and Partnerships et al	0	1/	0
E The Federal Government . . . . .	5,050	300	1,350
F State and Local Governments . . . . .	0	0	0
H Security and Realty Firms et al . . . . .	1,200	800	0
J The Rest of the World . . . . .	<u>0</u>	<u>1/</u>	<u>1,000</u>
K All Transactors . . . . .	6,200	2,500	2,800
NET MONEY ADVANCED OR RETURNED BY:			
L Households . . . . .	2,300	100	0
M Farms . . . . .	300	0	0
N Industrial Corporations . . . . .	300	0	200
P Business Proprietors and Partnerships et al	700	0	800
Q State and Local Governments . . . . .	300	200	300
R Banks and U. S. Monetary Funds . . . . .	400	500	300
S Life Insurance Companies . . . . .	1,500	1,400	1,600
T Other Insurance Carriers . . . . .	400	400	200
U Security and Realty Firms et al . . . . .	0	0	100
V The Rest of the World . . . . .	<u>200</u>	<u>0</u>	<u>0</u>
W All Transactors . . . . .	6,500	2,600	3,500
X Discrepancy (Money Advanced or Returned minus Money Obtained)	300	100	800

1/Less than \$50 million.

2/Lies between ± \$50 million.



## a/c LOANFUND FINANCING

Dollars)

1939	1940	1941	1942	Source
0	100	0	0	P&B-I-N . . . . . A
0	200	0	0	P&B-II-F . . . . . B
0	0	0	0	P&B-III-K . . . . . C
300	0	0	0	P&B-IV-K . . . . . D
2,200	2,400	10,050	41,150	P&B-V-m . . . . . E
400	0	0	0	P&B-VI-L . . . . . F
400	200	300	0	P&B-X-K . . . . . H
<u>700</u>	<u>1,500</u>	<u>1,100</u>	<u>0</u>	P&B-XI-K . . . . . J
4,100	4,500	11,500	41,200	A thru J . . . . . K
300	0	5,000	19,600	P&B-I-b . . . . . L
600	0	400	1,800	P&B-II-S . . . . . M
2,200	1,600	3,600	10,200	P&B-III-Y . . . . . N
0	500	300	4,300	P&B-IV-Y . . . . . P
0	400	800	1,200	P&B-VI-Z . . . . . Q
400	800	500	200	P&B-VII-U . . . . . R
1,600	1,700	2,200	2,400	P&B-VIII-W . . . . . S
300	600	400	600	P&B-IX-U . . . . . T
0	0	0	800	P&B-X-Z . . . . . U
<u>0</u>	<u>0</u>	<u>0</u>	<u>200</u>	P&B-XI-V . . . . . V
5,400	5,600	13,300	41,200	L thru V . . . . . W
1,300	1,100	1,800	2/	W minus K = Tbl. 31, line d . . X

Note: Due to rounding columns may not precisely dovetail.

is not a sharp one. The banking sector appears to advance or return a small sum through financial channels to others each year. But to others most, if not all, of this money probably appears as an ordinary receipt. And a small part of the money advanced in the form of increments in household and other portfolios is regarded by recipient security dealers as a receipt from customers. Nonetheless the loanfund accounts do make possible a significant though rough analysis of financial moneyflows. We shall attempt to use them for this purpose in Chapter 13.